



8. Economy

8.1 GENERAL BACKGROUND & OVERVIEW

With the establishment of the PA in 1994, numerous economic and development projects were initiated, but the WBGS are still totally dependent on support from outside. Palestinian economy is dominated by services, while industry remains underdeveloped and at a low level, and the agricultural sector from the lack or restrictive access to natural resources.

The main reason behind the current economic crisis is the general **closure and separation policy** imposed by Israel in March 1993, which has never been lifted since. In violation of international law, the closure is used as collective punishment against the Palestinian people, preventing WBGS residents from entering Jerusalem or Israel unless they hold an Israeli-issued permit. Any sustained Palestinian economic recovery will ultimately require the dismantling of the closure system.

PCBS data suggest that **per capita GNI** declined by 15% and **GDP** by 6.6% in 2006, while others estimate worse declines (e.g., the World Bank and IMF suggest a 8% decline).

Following the Hamas election victory in Jan. 2006, international aid to the PA was widely suspended and Israel stopped the transfer of Palestinian VATs, leading to an unprecedented deterioration of the local economy, especially in Gaza. According to a July 2007 report by the UNDP, a majority of Palestinians (58%) live below the poverty line, and about half of them live in extreme poverty. A majority of Palestinians (about 60%) reported a decline in their household incomes in 2006–07.

The PA has been facing a severe liquidity crisis since early 2006. It is estimated that budgetary resources fell by over a third in 2006 compared to 2005 (from \$2.20 billion to \$1.45 billion), despite a doubling of external budgetary assistance, leading to a 30% contraction in cash spending (IMF. *Macroeconomic and Fiscal Developments in the West Bank and Gaza*, Sept. 2007).

Key Indicators of the Palestinian Economy (Excl. Jerusalem, selected years)

	1995	1999	2001	2002 ¹	2003 ¹	2004 ¹	2005 ²	2006 ³
GDP (US\$ million)	4,511	4,261	3,816	3,556	3,995	4,248	4,443	4,150
GNI (US\$ million)	3,699	4,932	4,143	3,835	4,251	4,884	5,119	4,522
GDP per capita (US\$)	1,380	1,478	1,229	1,146	1,221	1,264	1,258	1,134
GNI per capita (US\$)	1,583	1,736	1,335	1,215	1,298	1,441	1,452	1,236
Real GDP growth (%)	6.1	8.6	-6.6	-3.8	8.5	6.3	4.9	-6.6
Real GNI per capita growth (%)	7.9	4.1	-16.1	-8.9	6.2	1.5	-1	-14.9
Domestic expenditure (% of GDP)	151.8	163.0	143.3	145.8	150.2	150.7	154.5	173
Inflation (CPI - annual %)	10.8	5.5	1.2	5.7	4.4	3.0	3.6	3.6
Poverty rate ⁴ (% of population)		20	37	51	47	48		
West Bank:		13	27	41	37	38		
Gaza Strip:		32	54	68	64	65		

¹ Revised; ² preliminary; ³ estimates ⁴ World Bank estimates

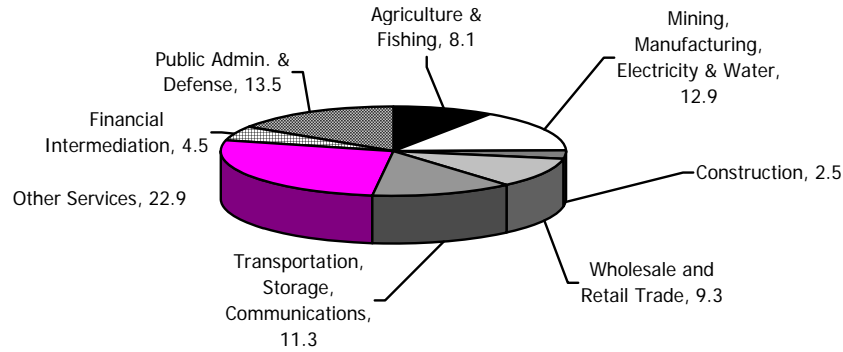
Source: UNCTAD. *Report on UNCTAD's Assistance to the Palestinian People*. July 2007, except:

¹ poverty rate: World Bank estimates.

- According to the **PCBS**, the relative **poverty line** and the absolute poverty line for a six-member household in the Palestinian Territory in 2006 stood at NIS 2,300 (US\$ 518) and NIS 1,837 (US\$ 414) respectively.
- **Poverty** has reached unprecedented levels, with around 53% of households (with an average size of six members) living below the national poverty line of \$385 per household per month in 2005. According to the World Bank, an estimated 71% of public employees fall under the poverty line based on income estimates, and 46% do not have enough food to meet basic needs. The number of people in deep poverty nearly doubled in 2006, to more than 1 million (OCHA, 2007).
- The World Bank estimates that the **separation barrier** costs the Palestinian economy 2-3 percentage points of GDP annually! (World Bank, *West Bank and Gaza Investment Climate Assessment*, March 2007).

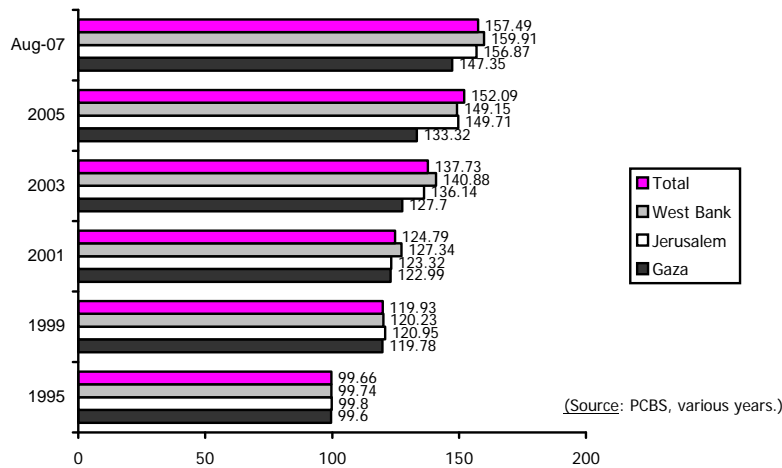


WBGS Economic Structure, 2006 estimates (% of GDP)



Source: PCBS, Quarterly National Accounts, 2007 (Jerusalem excluded).

Consumer Price Index (Yearly Averages)



(Source: PCBS, various years.)

8.2 AGRICULTURE

The Agricultural Sector at a Glance

	WBGS
Total Cultivated area (dunums) (2006)	1,826,50
Agricultural land as % of total land area	25.2
- of which irrigated	10.7
Area of fruit trees (2006)	1,136,693
- as % of total cultivated area	62%
Area of field crops (2006)	496,006
- as % of total cultivated area	27.2%
Area of vegetables (2006)	192,961
- as % of total cultivated area	10.5%
Area of cut flowers (2006)	436
No. of cattle (2006)	36,284
No. of sheep (2006)	793,874
No. of goats (2006)	387,123
No. of poultry (2005)	43,197
No. of beehives (2003/04)	59,946
No. of plant nurseries (2005)	197

Source: PCBS, Agricultural Statistics, 2005/06.



- As of Sept. 2007, 15.1% of the **employed persons** in the WBGS were working in agriculture, fishing and forestry (PCBS, *Labor Force Survey*, July-Sept. 2007).
- Between 1996 and 2006, agricultural output declined 19%, but in 2006 this sector employed 80% more people than it did in 1996. (UNCTAD. *Report on UNCTAD's Assistance to the Palestinian People*. July 2007).
- The sector generates approx. 25% of all Palestinian **exports**: major export goods are fruits, olives and olive oil, vegetables and cut flowers. The sector suffers from the lack of access to markets (Israeli export companies still control the quantity and the quality of Palestinian agricultural commodities), and restricted water resources.
- Fruit trees are the main kind of **cultivation**, followed by field crops and vegetables. Of the area cultivated with **fruit trees**, olives cover the largest area, followed by grapes, almonds and citrus; the largest area of the **field crops** is taken up by wheat, followed by barley, clover and chickpeas; regarding **vegetables**, the largest area is covered by squash, followed by tomatoes and cucumbers. (PCBS, *Agricultural Statistics*, 2003/2004).
- The **total area of agricultural land** is 1,488 km² of which 1,152.7 km² is **permanently** and 335.4 km² **temporarily cultivated**. Of the total cultivated area only 158.2 km² (10.6%) are **irrigated** (79 km² or 5.7% in the West Bank, 79.2 km² or 72.6% in Gaza), the remainder is **rain-fed**. (PCBS, *Land Use Statistics*, 2004).
- Approx. 900,000 dunums are planted with 10 million **olive** trees, constituting 45% of cultivated land in Palestine and contributing 15-19% of agriculture output. In 2006, olive oil production was estimated to reach 33,000-35,000 tons, about 12,000 tons of which are estimated to be consumed locally while the rest will be available for export or storage (World Bank. *West Bank and Gaza Update*. March 2007).
- In 2005, there were 4,246 **water wells** used for agriculture (WB: 246; GS: 4,000), pumping some 110,692.2 of cm³. (PCBS, *Agricultural Statistics*, 2005).
- In 2005, there were 7,241 **agricultural establishments** operating in the private and NGO sectors (WB: 5,762, GS: 1,479), incl. 5,881 operating in animal farming. (PCBS, *Agricultural Statistics*, 2005).
- In 2005, Gaza's 2,998 **fishermen** - operating 707 boats - caught some 1,818.3 tons of **fish**, mainly sardines. (PCBS, *Agricultural Statistics*, 2006).
- Between June 2006 and May 2007 alone, **Israeli forces destroyed** some 12,900 dunums of agricultural land (WB: 6,700, GS: 6,200) and 322 greenhouses (WB: 155, GS: 167), and uprooted 2,775 trees in the West Bank. (Consolidated Appeals Process, *Mid-Year Review* 2007).

8.3 INDUSTRY & PRIVATE SECTOR

Facts & Figures

- The **industrial** sector's share of the Palestinian **GDP** was estimated at 12% in 2005 (down from 16% in 1996) and its share in total **employment** at 12.3% (1995: 17.5%) (World Bank. *West Bank and Gaza Investment Climate Assessment*. March 2007).
- **Manufacturing value added** declined 7% over 10 years (1996-2006), yet employment in the sector increased 3%. (UNCTAD. *Report on UNCTAD's Assistance to the Palestinian People*. July 2007).
- Most establishments are **small enterprises** with an average size of 4 employees in the West Bank and 5 in Gaza; in 2004, only 21 industrial establishments had over 100 workers. In addition, the average level of **capacity utilization** was only 57% of the establishments in the WB and 47% in Gaza (World Bank. *West Bank and Gaza Investment Climate Assessment*. March 2007).
- As of Sept. 2007, 12.8% of the **employed persons** in the WBGS were working in mining, quarrying and manufacturing and 11.6% in construction (PCBS, *Labor Force Survey*, July-Sept. 2007).
- In the **West Bank**, most establishments are located in Hebron, followed by Nablus and Jenin; in **Gaza**, a large majority of the establishments are located in the Gaza City area.
- Some 91.0% of the establishments were **run by** the private sector, 5.0% were run by the government, 2.6% by NGOs, and 1.4% by local authorities, UNRWA and foreign bodies. The **main economic activity** of 56.6% of the establishments is wholesale, retail trade and repairs. (PCBS *Establishment Census 2004*).
- The **legal status** of most establishments (over 85%) is sole proprietorship. (PCBS *Establishment Census 2004*).



8.4 LABOR & EMPLOYMENT

■ Labor Market – General Development

- The **working age population** (15+ years) reached 2,193,900 by Sept. 2007, of which - by ILO standards - the number of **labor force** participants stood at 1,015,900 (46.3%), with 692,900 (48.7%) in the WB and 323,000 (41.8%) in the GS. (PCBS, *Labor Force Survey Report Series*, July-Sept. 2007).



- As of Sept. 2007, 90.7% of WBGS workers were working in the **Palestinian territories** (87.1% of West Bankers; 100% of Gazans), while 9.3% were employed in **Israel**, incl. settlements (12.9% of West Bankers, incl. Jerusalemites) (PCBS, *Labor Force Survey*, July-Sept. 2007).
- Of the employed workforce, 63.5% were working in the **private sector** and 22.3% in the **public sector** (PCBS, *Labor Force Survey*, July-Sept. 2007).

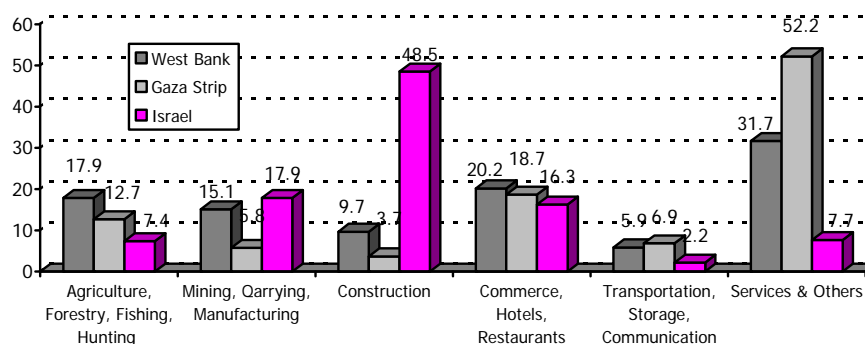
Palestinian Labor Force – Various Features (by ILO Standards)

by employment status (%)	2007 (July-Sept.)			1997-99 Average	2000	2005 Average
	WB	GS	Total			
Labor force participation rate	44.8	38.9	42.7	42.85	41.5	40.7
Full employment	70.5	63.4	68.2	77.7	80.9	69.9
Underemployment	10.9	3.7	8.6	6.7	5.0	6.6
Unemployment	18.6 ¹	32.9	23.2	15.5	14.1	23.5
by labor status (%):						
Employers	4.7	3.0	4.2	5.5	4.6	4.3
Self-employed	24.7	20.5	23.5	20.4	19.6	26.1
Waged employees	57.6	64.8	59.6	65.4	66.1	59.5
Unpaid family members	13	11.7	12.7	8.7	9.7	10.1
by economic activity (%):						
Agriculture, forestry, fishing	16.1	12.7	15.1	12.8	13.7	14.6
Mining, quarrying, manufacturing	15.4	5.8	12.8	15.8	14.3	13.0
Construction	14.8	3.7	11.6	21.2	19.7	12.9
Commerce, hotels, restaurants	19.7	18.7	19.4	17.8	17.5	19.4
Transportation, storage, communication	5.4	6.9	5.8	4.7	4.9	5.7
Services and other branches	28.6	52.2	35.3	27.7	29.9	34.4
Working time and wages						
	WB	GS	Israel	WBGS average 1997-99	2000	2005
Average weekly working hours	42.5	39.7	43.9	44.3	43.1	42.0
Average monthly working days	22.0	22.4	20.3	22.6	23.2	23.8
Average daily net wage – NIS	77.1	64.1	131.9	67.8	77.3	78.1
Median daily net wage - NIS	70.0	57.7	123.1	53.8	69.2	60.0

¹ Without the Jerusalem Governorate, unemployment in the West Bank rises to 19.2%. In the Jerusalem Governorate alone, unemployment stood at 13% and in East Jerusalem (within 1967 municipal boundaries) at 12.7%.

(Source: PCBS, *Labor Force Survey Report*, July-Sept. 2007, previous years.)

Labor Force Distribution by Sector (%)



(Source: PCBS *Labor Force Surveys*, July-Sept. 2007.)

Women in the Labor Force

- Despite the high and successful secondary school enrolment of women, which generally correlates positively with female work, women's **labor force participation** (15+ years) remains low, accounting for only 15.7% of the formal **labor force**. As of Sept. 2007, 12.1% of the female labor force was **unemployed**. Main reasons for the low participation is "housekeeping". (PCBS, *Labor Force Survey*, July-Sept. 2007).
- Of the women participating in the labor force, 39.3% had 13 or more years of **schooling**. However, also among the unemployed women the largest group (38.1%) was that with 13 and more years of schooling. Of the women not outside the labor force, 48.6% did not participate due to housekeeping and 26.9% due to studying/training. (PCBS, *Labor Force Survey*, July-Sept. 2007).



- Of the female labor force in 2005, 37.4% were **employed** in agriculture, hunting, fishing, 8.8% in mining, quarrying, manufacturing, 8.5% in commerce, hotels, restaurants, and 44.9% in services and other branches. The majority of working women were professionals, technicians, associates and clerks or skilled agricultural/fishery workers. (PCBS, *Labor Force Survey*, July-Sept. 2007).

■ Child Labor

- In 2006, 5.3% of the total number of children aged 10-17 years (WB: 7.4%, GS: 2.1%) participated in the **labor force**, up from 3.8% in 2005. Of these, approx. 2/3rd were working for their families (unpaid). In 2005, about 47.6% of the employed children were not at school. (PCBS, *Child Statistics, Annual Report*, 2006 and 2007).
- The main **reason for child labor** is low economic status of the household: 71.0% of employed children aged 5-17 years are working because of economic need (51.4% to assist in family projects, 19.6% to contribute in increasing family income). (PCBS, *Child Statistics Series No. 9, Annual Report*, 2006)
- In 2006, child labor was **concentrated** in agriculture 53.6%, followed by trade, hotels and restaurants 26.6%, then mining and manufacturing 9.5%, and construction 6.7%. Average **weekly working hours** were 26.8 for boys and 16.6 for girls (PCBS, *Child Statistics Series No. 9, Annual Report*, 2006).
- **Youth employment:** 56.2% of the age group 15-24 years and 54.4% of the age group 25-29 years were part of the labor force as of Sept. 2006. (PCBS, *Labor Force Survey Report*, July-Sept. 2006).

■ Public Sector Employment

- The public sector has **grown** by 60% since 1999 and in May 2007 stood at **168,319** in May 2007 (The World Bank. *Two Years after London: Restarting Palestinian Economic Recovery*. Sept. 2007).
- Of the employed workforce, 63.5% were working in the **private sector** (WB: 68%, GS: 51.8%) and 22.3% (WB: 15.4% and GS: 40.2%) in the **public sector** (PCBS, *Labor Force Survey*, July-Sept. 2007).
- The **daily average wage** in the public sector was NIS 81.2 (compared to NIS 65.6 in the private sector) (PCBS, *Labor Force Survey*, July-Sept. 2007).
- Since 1999, there has been an average annual increase in **PA staffing** of just under 9% a year - a rate of increase that is over twice the rate of population growth. Even in the midst of acute financial crisis in the first quarter of 2006, the PA added over 1,300 into the civil service and 6,800 into the security services, exacerbating the PA's current financial woes. (World Bank. *West Bank and Gaza Public Expenditure Review. Vol. 1: From Crisis to Greater Fiscal Independence*, Feb. 2007).
- In 2006, **govt. employment** had reached about 167,000 people and **wages** due almost \$1.2 billion (about \$108 million per month), exceeding total revenues being collected, including those collected by Israel (IMF. *Macroeconomic and Fiscal Developments in the West Bank and Gaza*, Sept. 2007).
- In 2006, **public administration and defense** contributed 13.5% to the **GDP** (up from 12.8% in 2005), making it the second largest contributor (after 'other services' with 22.9%) (PCBS, *Quarterly National Accounts*, 2007).

■ WBGS Laborers in Israel

- According to PCBS data, 146,000 Palestinians (116,000 from the West Bank, incl. East Jerusalem, and 30,000 from Gaza) **worked in Israel**, incl. industrial estates and settlements, during the third quarter 2000. Since then, numerous Palestinian workers have lost their jobs in Israel as a result of Israel's closure policy. By **Sept. 2007**, they numbered **66,806**, one third of which held an Israeli-ID or foreign passport. The balance in the number of workers in Israel from the West Bank - excl. East Jerusalem - are believed to be divided roughly equally between those holding work permits and those working illegally. (World Bank. *West Bank and Gaza Update*, Sept. 2006).
- Since April 2006, **labor flows from Gaza** have been non-existent, while an estimated 15-20,000 of the total Palestinian labor flows have been "illegal" workers, i.e. those without permits. According to a 2007 B'Tselem report, Israeli Border Police alone apprehended 148,417 Palestinians **without a permit** in 2005, in addition to a further 51,000 from 1 Jan.-14 June 2006. According to data by the Israeli DM's Coordination of Government Activities in the Territories (COGAT), the total number of **permits issued** for employment in the settlements rose from 13,600 in May 2006 to 17,600 in Jan. 2007, reaching 18,400 by March 2007. (ILO, *The Situation of Workers of the Occupied Arab Territories*, 2007).
- As of Sept. 2007, 9.3% of Palestinian workers were employed in **Israel**, incl. settlements (12.9% of West Bankers, incl. Jerusalemites). Their **average daily wage** was NIS 131.9. The majority of workers employed in Israel were Jerusalemites (32.2%), followed by workers from Jericho (19.5%) and Salfit (17.4%) (PCBS, *Labor Force Survey*, July-Sept. 2007).



8.5 TOURISM

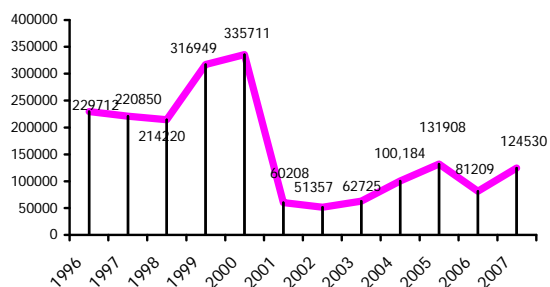
Hotels and Related Features

End of 1999	Area	Hotels	Rooms	Beds	Guests	Room Bed		Workers engaged		
						Occupancy	Occupancy	Admin.	Operation	Total
	WBGS	92	3,752	8,102	316,871¹	35.5%	30.3%	403	1,234	1,637
as of June 2007	<i>WB all</i>	46	2,559	5,584	75,693					
	- North	7	112	264	1,951	12.5%	7.4%			
	- Middle	19	904	2,095	41,296	21.1%	14.8%			
	- South	20	1,543	3,225	22,446	9.7%	8.1%			
	J'lem	19	1,023	2,202	58,108	40.7%	32.8%			
	Gaza	12	407	751	629	1.1%	1.4%			
	Total	77	4,005	8,537	124,530	19.4%	15.5%	260	1,088	1,268²

¹ Since Jan. 2007 (average length of stay in hotels: 2.1 days) ² incl. 173 female (Source: PCBS, *Hotel Activities Surveys*, 2007.)

- As of Sept. 2007, 19.4% of the **employed persons** in the WBGS were working in commerce, restaurant and hotels (PCBS, *Labor Force Survey*, July-Sept. 2007).

Hotel Guests in Palestine, 1996-June 2007



Nationality (Jan.-June 2007):

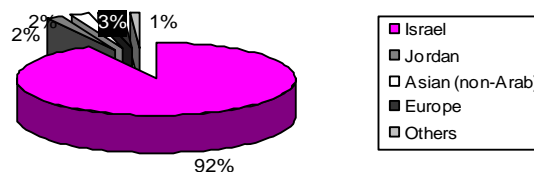
Palestinian (from abroad)	22,272
Arab	1,606
Israeli	14,208
US/Canada	12,207
South/Central America	4,773
Australia/New Zealand	1,757
EU	36,670
Other European	20,918
Asia	5,799
Africa	3,520
Total:	124,530

(Source: PCBS, *Hotel Activities Survey*, 2007.)

8.6 TRADE

Facts & Figures

- The sector suffers from the **Israeli control** over the movement of goods and services, a weak export capacity due to an underdeveloped industrial base, lack of natural resources, relatively high wage levels and the Israeli closure policy. The latter has led to increased costs in transportation, which in turn made Palestinian products less competitive, to foreign purchasers switching to more reliable alternative sources of supply in the face of production and shipping interruptions, and Palestinian producers switching to service domestic markets.
- Almost all **cargo flows** between **Gaza** and the rest of the World (incl. Israel and the West Bank) must be channeled through the **Karni crossing**, which was closed during most of 2006 in violation of the Agreement of Movement and Access. Instead of the agreed 150-400 export trucks a day, the 2006 average was only 20 a day! (World Bank. *Investment Climate Assessment*. March 2007).
- In 2005, some 91,598 persons were engaged in 45,539 enterprises in the **internal trade** sector. (PCBS, Internal trade - Current Main Indicators, 2006).
- Besides food and live animals, main **trade items** of the Palestinian economy are manufactured goods (**exports**), as well as manufactured investment goods and raw materials (**imports**).
- The PA has entered into a preferential access **agreement** with the EU, signed a preferential treatment and duty-free access agreement with the US, and is classified by the Arab League within the list of Arab Least Developed Countries, granting it preferential treatment, but trade developments are still disappointing.
- Israel accounted for 92% of the total value of Palestinian trade with its **main partners**, representing 92% of total imports and 91% of exports. In contrast, Palestine's second bilateral trade partner, Europe, accounted for only 3% of Palestinian trade with main partners, Jordan and Asian non-Arab countries 2%. (UNCTAD. Report on UNCTAD's Assistance to the Palestinian People. July 2007)



- UNCTAD suggests that supported by appropriate policies, trade can generate incentives for income diversification and create new public revenue sources for the PA but this requires **re-routing** and **reorienting** Palestinian trade within the context of regional transit transport agreements.
- In 2006, exports declined 3% while imports rose 20%, which reflects the Palestinian economy's greater isolation from regional and world markets. The trade deficit has reached unprecedented proportions of 73% of GDP – 30% higher than its 30-year average! Israeli closure policies and the loss of local production to imports, notably from Israel accounts for over 55% of the Palestinian trade deficit. This means that the equivalent of 50% of WBGS GDP was needed to pay for the **trade deficit with Israel** in 2006. (UNCTAD. *Report on UNCTAD's Assistance to the Palestinian People*. July 2007).

External Trade (excl. Jerusalem) - Key Indicators (millions of US\$)

	1995	1999	2002 ¹	2003 ¹	2004 ¹	2005 ²	2006 ³
Exports of goods and services	499	684	420	433	482	665	581
Imports of goods and services	2,176	3,353	2,130	2,404	2,751	3,352	3,631
Trade balance (% of GDP)	-51.8	-63.6	-47.2	-49.3	-53	-60.4	-73
Trade balance with Israel (US\$ million)	-1,388	-1,766	-1,149	-1,370	-1,623	-1,943	-1,999
Trade balance with Israel (% of GDP)	-43.0	-42.0	-31.8	-34.3	-37.9	-43.7	-48.2
Imports from Israel - % of PA private consumption	56.5	54.5	43.6	43.4	44.6	51.5	43.5
Total PA trade with Israel - % of total Israeli trade	3.7	3.7	2.1	2.2	2.2	2.4	3.1
PA trade with Israel - % of total PA trade	78.8	68.0	69.0	69.1	70.3	70.1	66

¹ Revised; ² preliminary; ³ Estimates

Source: UNCTAD. *Report on UNCTAD's Assistance to the Palestinian People*. July 2007.

Total Value of Palestinian Imports and Exports by Group of Countries, 1996-2005 (in US\$1,000)

Group of Countries	Exports			Imports		
	1996	2000	2005	1996	2000	2005
Asian Arab Countries	19,043	28,960	23,154	7,398	25,734	36,400
Asian Countries	319,353	369,988	292,560	1,769,088	1,958,322	2,249,500
African Arab Countries	11	162	2,701	19,172	13,934	32,601
Other African Countries	0	0	85	1,776	2,243	4,779
North American Countries	806	71	4,218	25,450	58,127	33,313
Central American Countries	0	0	0	707	2,392	2,378
Caribbean Countries	0	0	0	15	52	72
South American Countries	9	0	103	2,703	6,396	15,385
EU Countries	244	1,675	11,405	148,625	263,605	240,495
Free Trade Countries	0	0	173	5,592	8,561	16,016
Eastern European	1	0	66	6,534	26,570	26,672
Australian	0	0	0	2,218	16,001	8,092
Sundries	0	0	978	0	871	1,069
Total	339,467	400,857	335,443	2,016,279	2,382,807	2,666,772

Source: PCBS, *Foreign Trade Statistics*, 1996-2005.

Crossing Points in the West Bank and Gaza Strip

West Bank			
Crossing Point	Commercial Checkpoint	Working hours	Notes
Taybeh	Tulkarem/Qalqiliya - Israel	Sun- Thr: 09:00-18:30 Friday : 09:00-12:00 Sat: closed.	Israel Private company took over the responsibility of controlling the checkpoint.
Awarta	Nablus - Israel (Main commercial checkpoint in Nablus since July 2003)	Sun- Thr: 06:00-17:00 Fri: 06:00-14:00 Sat: closed	Male aged between 15 and 30 years old including drivers and commercial workers, and all residents of Tulkarm, Jenin and Tubas are not allowed to exit Nablus.
Al-Jalama	Jenin ? Israel (Northern entrance/ main commercial checkpoint)	Sun- Fri: 07:00-16:00 Sat: holiday	-----
Beituniya	Ramallah/ Al-Bireh - Israel	Sun- Thr: 07:00-17:00 Fri: 07:00-13:00 Sat: closed	Back-to-Back checkpoint. Only Palestinians from Kufr Aqab and Samiramis holding Jerusalem IDs and driving Israeli yellow-plated trucks are allowed to pass without using the back-to-back system. Not open for private cars or pedestrians.
Jericho	Jericho ? Israel (DCO Checkpoint)	24 hours all day	Open, but only for basic necessities, incl. dairy products. Other goods require a permit.
Tarqumiya	Hebron- Israel (West of Hebron on Rd. 32 for both Hebron and Bethlehem districts)	All days: 07:00-17:00	Goods are moving across smoothly and all cargo is checked by the IDF Military Police. Workers are also allowed to cross from 05:00-17:00.



Gaza				
Crossing Point	Border	Working hours	Distance (to Gaza)	Notes
Al-Muntar (Karni)	Gaza-Israel	Sun- Thr: 0900-1700 Fri: 0900-1300 Sat: holiday (<i>sometimes used for inbound stone aggregates only</i>)	5 km	Main gateway for Cargo traffic
Sufa	Gaza-Israel	Sun- Thr: 0900-1700 Fri: 0900-1300 Sat: holiday	30 km	Construction materials only (sometimes used by international agencies to get humanitarian aids)
Beit Hanoun (Eretz)	Gaza-Israel	Sun- Thr: 0900-1700 Fri: 0900-1300 Sat: holiday	20 km	Used for passengers traffic
Rafah	Gaza-Egypt	0800-1800 daily (pending to be operated 24 hrs/day)	40 km	Used for passengers traffic
Karem Abu Salem (Karem Shalom)	Gaza/Egypt-Israel	Sun- Thr: 0900-1600 Fri: 0900-1300 Sat: holiday	45 km	Serves non-Palestinian in and out passengers traffic in addition for cargo traffic
Al-Ojah (Nitzanah)	Egypt-Israel	Sun- Thr: 0900-1700	70 km	used by some Palestinian importers to get cargo from Egypt to Gaza via Karni crossing

Source: Palestinian Shippers' Council, Sept. 2007.

8.7 TAXATION

- The Gaza-Jericho Accord (May 1994) transferred the authority to organize all tax-related issues to the PA, the details of which were outlined in the Early Empowerment Agreement of 29 Aug. 1994. Taxation is the PA's main source of income; during the current Intifada, Israel's refusal to hand over taxes collected on behalf of the PA (for VAT adjustments, import, fuel, income and health taxes) and problems/inefficiency in collecting taxes domestically have reduced the PA's **fiscal revenues** considerably. By the end of 2002, the net amount of monies withheld by Israel since Dec. 2000 was estimated at US\$560 million. Israel resumed transfer of revenues in Dec. 2002 following US pressure and PA assurance to implement auditing reforms; however, following the Hamas election victory Israel again suspended payments since March 2006.
- Under the quasi-customs union between Israel and the PA, stipulated in the 1994 Protocol on Economic Relations, the Palestinians adopted - with minor exceptions - Israel's **tariff** structure; the PA applies the Israeli VAT rate (17%) with the option to increase or decrease it by 2% on a limited number of goods. Israel collects tariffs and VAT on Palestinian imports on behalf of the PA.
- During 2006, **Israeli authorities withheld**, for the second time since 2002, more than \$800 million in Palestinian **tax revenue** collected on behalf of the PA (OCHA, 2007).

8.8 FINANCES

■ Budget and Fiscal Accounts

In 2006, **resources to fund recurrent budget expenditures** fell by over one third compared to 2005. **Cash resources** – incl. domestic tax and non-tax revenues, the share of indirect taxes collected by Israel on behalf of the PA (clearance revenues) that could be used, and domestic and external financing - totaled \$1.4 billion, as opposed to \$2.2 billion in 2005. (IMF. *West Bank and Gaza: Fiscal Performance in 2006*, March 2007).

It is estimated that out of some \$730 million in **clearance revenues** collected by Israel, only about \$270 million was directly or indirectly available to fund govt. spending. Israel made only one transfer in 2006, in February, of \$68 million. In the period from March to Dec., it is estimated that Israel deducted over \$150 million from the withheld clearance revenues for payments to Israeli utility companies to meet the obligations owed by Palestinian municipalities. In addition, only \$290 million in domestic tax and non-tax revenues were collected in 2006, down from \$476 million in 2005. (IMF. *West Bank and Gaza: Fiscal Performance in 2006*, March 2007).

The **resumption of clearance revenue transfers** in July 2007 has eased the liquidity situation and enabled the full payments of wages since then. The total stock of clearance revenues collected between Feb. 2006 and July 2007, net of deductions for payments of utilities and of transfers to the PA made during this period, is preliminarily estimated at NIS 2.7 billion, of which almost NIS 400 million has been attached by Israeli courts. Israel made a first installment of NIS 500 million in early July and agreed to settle the full stock of withheld clearance revenue through monthly installments of NIS 370 million (to be fully transferred by end-2007). Regular monthly transfers started again in early August. (IMF. *Macroeconomic and Fiscal Developments in the West Bank and Gaza*, Sept. 2007).

Overall, and including allowances paid by the Presidency and the TIM, **government employees** on average received **payments** equivalent to some 50–55% of their normal incomes in 2006. These payments absorbed almost half of the available financial resources, or a little over \$650 million (IMF. *West Bank and Gaza: Fiscal Performance in 2006*, March 2007).



On a commitment basis, the **fiscal deficit** reached \$1.2 billion, or 26% of GDP. About \$0.9 billion in expenditure arrears were accumulated, owed to govt. employees, who received less than two-thirds of their regular salaries in 2006, as well as to the pension fund and to private sector suppliers. (IMF. *Macroeconomic and Fiscal Developments in the West Bank and Gaza*, Sept. 2007).

During 2006, Israeli authorities withheld, for the second time since 2002, over \$800 million in Palestinian **tax revenue** collected on behalf of the PA. As a result, PA revenues were over 50% lower in 2006 than in 2005 and PA expenditures were reduced to \$655 million (30% below its 2005 level). The **budget deficit** in 2006 is estimated at \$791 million (19% of GDP), as compared to \$761 million in 2005 (17% of GDP). This gap was partly met by an increase in external budget support in the range of \$137 million in 2006. The **combined losses of reduced PA expenditure and increased imports** in 2006 were the equivalent of 27% of GDP. (UNCTAD. *Report on UNCTAD's Assistance to the Palestinian People*. July 2007).

UNCTAD estimates the PA's cumulative **public revenue loss** at US\$1.2 billion between 2000 and 2005. For 2006, the losses – excl. tax collections – are estimated to exceed US\$250 million.

WBGS: Central Government Finances (Cash Basis, in million US \$), 2005-06

	2005	2006
Resources (net)		
Tax revenues (net)	1,220	564
<i>Domestic revenues</i>	476	290
<i>Clearance revenues</i>	745	273
Domestic Financing	477	99
<i>Banks</i>	304	-96
<i>Palestine Investment Fund</i>	173	196
Previously withheld clearance revenues	137	0
External Financing	349	747
Total	2,184	1,410
Expenditures		
Wages and allowances	1,001	656
Transfers, operating and capital expenditures	637	367
Net lending (subsidies)	344	337
Total	1,982	1,360

Source: IMF, *West Bank and Gaza: Fiscal Performance in 2006*, March 2007.

■ Banking

Before 1967, there were 32 banks in the WB and 6 in the GS; the period from 1967-1980 was characterized by the total absence of a banking system; only in 1981 did a Bank of Palestine branch open in Gaza. During 1986-1989, 10 further branches of the Bank of Palestine and the Cairo-Amman Bank opened in the WBGS, but the real boom started in 1993 following the signing of the DoP: currently, there are 21 **banks** with a total of 140 **branches** (10 Palestinian banks with 70 branches, 1 foreign bank with 1 branch and 10 Arab banks with 69 branches) in the WBGS. The largest national bank is the Bank of Palestine with 25 branches and the largest non-Palestinian bank is the Arab Bank with 22 branches (PMA, website).

■ Capital Market

Palestine Securities Exchange was established in 1997 and the first trading session took place on 18 Feb. 1997. As of 30 Sept. 2007, 35 **companies** were listed, 66,730 accounts were opened, and the number of **shareholders** (94.9% of who are local citizens) had reached 105,408 (holding some 950,127,544 subscribed **shares**). The **average daily turnover** value in 2006 was US\$3,313,110. The **Al-Quds Index**, which had started at 139.13 in 1997, had its peak in 2005 with 1128.59 and stood in Sept. 2007 at 517.18. The largest company was the Palestine Development & Investment Ltd. (PADICO) with 20.6% of the total volume and the top company traded was the Bank of Palestine with 26.6% of the total value traded.

■ Donor Assistance

Since March 2006, the majority of **external finance** has been channeled through the President's Office. Additional funds have been received through the **Temporary International Mechanism** (TIM) that was endorsed by the Quartet on 9 May 2006 to facilitate the direct delivery of assistance to the Palestinian people, without the money passing to or through the PA government. The TIM has three windows to cover health, utilities, social allowances: (1) commitments made through the existing World Bank administered *Emergency Services Support Program* (ESSP); (2) the *Interim Emergency Relief Contribution* (IERC), which aims at financing the procurement of fuel for hospitals; and (3) the *Cash-Transfer Scheme*, which provides allowances for health sectors workers and for the poor.

The decline in revenues and domestic financing was offset in part by a strong increase in **external financing** (almost \$750 million in 2006 - over double the amount received in 2005) through a number of channels that bypassed the Hamas-led govt.:

- About **\$290 million** received mostly from Arab donors was channeled through the Office of the President, mostly after June 2006 (mainly used to pay allowances to government employees and social hardship cases).
- Over **\$170 million** from European donors, disbursed through the Temporary International Mechanism (TIM), which was set up by the international donor community in mid-2006, to channel support directly to the Palestinian people.
- The caretaker govt. in office in early 2006 received over **\$150 million**, through the then still operational STA. This included almost \$80 million from Arab donors, \$42 million from the World Bank administered Reform Trust Fund and almost \$25 million from the EU's Interim Relief Contribution.



- The Hamas-led PA is estimated to have received only about **\$100 million** in direct budget support. This included almost \$70 million in cash brought in through the Rafah border crossing between Egypt and the Gaza Strip. (IMF. *West Bank and Gaza: Fiscal Performance in 2006*, March 2007).

It is commonly agreed that **additional** donor assistance aid would have little impact other than alleviating day-to-day hardship, unless there is an end to Israel's **closure** policy. With a freeing-up of the constraints on economic activity and committed Palestinian reform, the World Bank estimated that an additional US\$500 million per annum could by 2006 spur a growth in real personal incomes of about 12% (and 20% in nominal terms), and could reduce unemployment to levels only slightly higher than prior to the *Intifada*.

Aid Disbursements Grants and Loans (in US\$), 2002-2006

Type of Aid	2002	2003	2004	2005	2006
Development	\$310,931,454	\$448,917,192	\$368,106,060	\$381,358,856	\$252,777,407
Humanitarian Aid	\$310,931,454	\$339,063,715	\$377,034,035	\$490,987,126	\$412,890,057
Budget Support	\$310,931,454	\$250,980,000	\$361,080,000	\$349,000,000	\$738,210,000
Total	\$1,159,563,120	\$1,038,960,907	\$1,106,220,095	\$1,221,345,982	\$1,403,877,464

(The World Bank. *Two Years after London: Restarting Palestinian Economic Recovery*. Sept. 2007).

WBGs: External Budget Support (in million US\$), 2005-06

	2005	2006
PA Government	349	236
Bilateral Donors	194	193
<i>Arab Countries</i>	194	182
<i>Other Countries</i>	0	12
Multilateral Donors	155	43
Office of the President	...	275
<i>Arab Countries</i>	...	264
<i>Other Countries</i>	...	10
EC Interim Emergency Relief	...	56
Temporary International Mechanism	...	172
Total	349	738

Source: IMF. *Macroeconomic and Fiscal Developments in the West Bank and Gaza*, Sept. 2007.

The International Humanitarian Action Plan and Appeal for **2007** of the **Consolidated Appeals Process** (CAP) - a coordinated program jointly undertaken by UN organizations and international NGOs - required **US\$ 454 million** (~US\$221 per beneficiary) to cover 103 projects in various economic sectors (the initial financial requirement for 2006 had been estimated at only US\$215 million and was then revised to US\$384 million!). The revised 2006 CAP fell short of 34% of the required funds and the 2007 CAP as of June 2007 had only 29% of required funding covered. The largest **sectoral assistance** in 2007 was required for Jobs and Cash Assistance (\$198 million), followed by Food Aid (\$150 million), Health and Psychosocial Support (\$36 million), Water & Sanitation (\$34 million), Coordination & Support Services (\$14 million), Agriculture (\$11 million), Education (\$4 million), and Protection/Human Rights/Rule of Law (\$2 million). Main funder was the European Commission, followed by Sweden, Norway, Canada and Spain (CAP: *Emergency Appeal 2007 for the oPt*, Oct. 2007; and CAP, *Mid-Year Review*, July 2007).

Recommended Research Sources:

<http://electronicintifada.net/v2/business/economy.shtml>
<http://www.pma-palestine.org/> (Pal. Monetary Authority)
<http://www.mof.gov.ps>
<http://www.ilo.org/public/english/standards/relm/ilc/ilc96/pdf/rep-i-a-ax.pdf>
<http://www.imf.org/external/np/wbg/2007/eng/092407.pdf>

<http://www.pcbs.gov.ps> (Economics Statistics)
<http://www.worldbank.org/ps>
<http://www.met.gov.ps/>
http://www.unctad.org/en/docs/tdb54d3_en.pdf
<http://www.psc.ps/> (Palestinian Shippers' Council)

ILO, *The Situation of Workers of the Occupied Arab Territories*. International Labor Conference, 2007.

International Monetary Fund. *West Bank and Gaza: Fiscal Performance in 2006*, March 2007.

International Monetary Fund. *West Bank and Gaza: Economic Developments in 2006 – A First Assessment*, March 2007.

International Monetary Fund. *Macroeconomic and Fiscal Developments in the West Bank and Gaza*, Sept. 2007.

Nashashibi, Karim. *Palestinian Finance under Siege: Economic Decline and Institutional Degradation*. OCHA Special Focus Paper, April 2007.

Palestinian Monetary Authority. *Monthly Statistical Bulletin* (various issues).

PNA Ministry of Planning. *Emergency Support Program to the Occupied Palestinian Territory 2006*, May 2006.

UNCTAD. *Report on UNCTAD's Assistance to the Palestinian People*. July 2007.

UNCTAD. *The Palestinian War-Torn Economy: Aid, Development and State Formation*, April 2006.

West Bank and Gaza Update - A Quarterly Publication of the World Bank WBGs Resident Mission.

The World Bank. *West Bank and Gaza Public Expenditure Review. Vol. 1: From Crisis to Greater Fiscal Independence*, Feb. 2007.

The World Bank. *Movement and Access Restrictions in the West Bank: Uncertainty and Inefficiency in the Palestinian Economy*. May 2007.

The World Bank. *West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector.*, March 2007.

The World Bank. *Two Years after London: Restarting Palestinian Economic Recovery*. September 2007.

